THE PRESS-ENTERPRISE
BUSINESS
SECTION E
WEDNESDAY MARCH 29, 2006

DOW 11,154.54 -95.57 | BONDS 30-yr U.S. 4.80% 0.07
NASDAQ 2,304.46 -11.12 | DOLLAR in Yen 117.91 1.22
S&P 500 1,293.23 -8.38 | GOLD New York $566.60 0.40
GOOD DAY: TransMontaigne Inc. +7.6% | BAD DAY: Luby's Inc. -22.8%

Study forecasts slower growth

ECONOMY: Expansion statewide will slacken, but the impact on the Inland area may be softer, a study says.

BY JOSH BROWN
THE PRESS-ENTERPRISE

California's economy may slow over the next year as the housing market cools, according to a UCLA study released today.

The Anderson Forecast's quarterly economic report predicts unemployment statewide will increase 0.7 percent by the fourth quarter of 2007. Growth in personal income will slow by half a percent and payroll employment growth will decrease by 0.2 percent.

"We're basically in a housing bubble right now," said Christopher Thornberg, senior economist at UCLA and author of the California study. "And a cooling housing market is going to have a negative impact on the economy."

The slowdown may be a little softer throughout Inland Southern California, where unemployment remains low at 4.7 percent. However, Thornberg said even the Inland region will feel the pinch of the state's weakening economy.

"The Inland Empire went right through the last recession (in 2001) without a hitch," Thornberg said. "And in the long run, the Inland Empire is still going to be the fastest-growing area in the state."

Thornberg said the housing boom driving the state's economy finally has reached a peak, and as the market wanes, the study expects the acquisition of residential permits to drop over the next two years by 16 percent.

The slowdown in new houses will also weaken the construction sector. The report predicts about 200,000 jobs will be lost.

"This is not to mention real-estate and mortgage banking which will also take a hit," Thornberg wrote in the report. "Reduced home appreciation will slow taxable sales growth as well."

Taxable sales dropped from 12.4 percent to 3.8 percent over the past year, and the report calls for it to rebound only slightly next year, to

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STUDY: As housing boom wanes, economy cools

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4.3 percent.

Thornberg said the situation does not bode well for the state's budget. He said in the report that the budget will likely "go under water by the early part of next year, and with it, much of the infrastructure dreams of the current administration," referring to the governor's plans to rebuild infrastructure.

One worry for Thornberg is the rapidly increasing amount of the state's informal employment, which is the number of people working on jobs not reported to the state.

Over the past six years, that number has grown by 500,000 to 1.6 million workers.

Those unreported workers are about the same size as the entire workforce of Oklahoma, Iowa, Kansas, Nevada and 19 other smaller states, according to the report.

Another issue for the state is a slowing job market in the manufacturing sector. California has lost more than 20,000 factory jobs in the past two years, even as the economy has recovered, the report found. Manufacturing output, however, has continued to grow statewide.

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CHRISTOPHER THORNBERG, SENIOR ECONOMIST AT UCLA

UCLA ANDERSON FORECAST

PAYROLL EMPLOYMENT
2005: 1.9%, **2006:** 1.1%, **2007:** 0.9%, **2008:** 1.2%

UNEMPLOYMENT RATE
2005: 5.1%, **2006:** 5.6%, **2007:** 6.3%, **2008:** 6.2%

PERSONAL INCOME
2005: 3.9%, **2006:** 5.2%, **2007:** 4.7%, **2008:** 4.3%